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*Reality is an agreement, and the Reality Club
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The Local Employment Trading System

by Michael Linton and Thomas Greco

THE PROBLEM OF MONEY

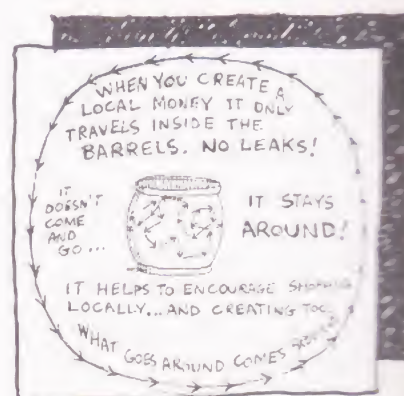
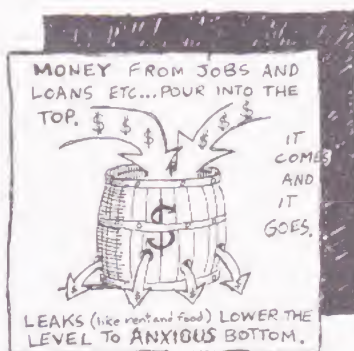
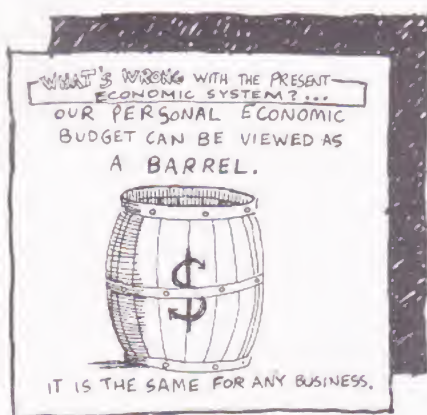
Think of yourself as a leaking bucket. You have only so much water (money) and it is leaking away through holes in the sides and the bottom. The leaks in the bottom are constant. As long as you have anything they will keep running — rent, food, fuel, etc. The side leaks are only relevant when the level is high. They represent spending you do when you can afford to. Your bucket is filled from a variety of more or less reliable sources representing income from employers, customers, lotteries, government subsidies and other trickle-down phenomena. Whenever money leaves your bucket it is essentially gone, and any that returns to your income does so entirely by chance. Since your sources of supply are not entirely reliable, you are generally concerned about the level in your bucket, as is everybody else. Nobody seems to think they have enough. When you deal with another person, money flows from one bucket to another.

It's every man for himself out there. Only a fool would think otherwise. A competitive game for survival dominates the economic interactions between people in a community, and between communities in the world.

Given that this is so, the basic strategies and tactics assumed by the players in this game will be selected for their competitive power. This point is so clear to most people already that the major difficulty for them is to see that different games with different behaviors are at all possible.

Once money has been spent, it really makes no difference where it goes, it is gone, with no particular reason ever to come back. This is primarily a structural consequence of the virtually universal transferability of money and the remote locus of control over the money-creation process.

Money comes and money goes, and the way it comes has nothing to do with the way it goes. The real dominant factor is the invisible hand of the market, which demands that money shall flow to the cheapest sources of supply.



Local Employment Trading System (LETSsystem) is the name of a remarkable tool for building and strengthening local communities. It's a kind of alternative banking system that is fully compatible with traditional currencies. It is a mechanism for local economic survival when regular money is scarce. And, like any monetary system, it is based on trust.

Michael Linton designed the Comox Valley LETSsystem in Courtenay, British Columbia, in 1982 and is busy helping spread the idea to other communities. Thomas Greco is a writer and alternative economist.

Though not essential, the tools that make a LETSsystem run smoothly are a telephone with answering machine and a personal computer. Software programs for running a LETSsystem and managing the bookkeeping are available. For prices, information or a list of communities that have already begun their own LETSsystems, send one dollar of official U.S. or Canadian money to Landsman Community Services, Ltd., 375 Johnston Ave., Courtenay, B.C. V9N 2Y2, Canada.

—Richard Nilsen

illustrations by Don Monet

THE IMPOVERISHMENT OF THE COMMUNITY

The leaking bucket applies not simply to the economic situation of every single person and business organization, but also to every single community, from the village to the nation. You have what you have, and it goes when you spend and comes as you earn. Within the community there exists a cascade of money from bucket to bucket, employing local people until someone spends it outside the community, perhaps on a holiday, perhaps to import tools, equipment, foodstuffs. Each community exists in the world in a more or less precarious balance between its income and expenditure. Hence the drive to export goods to increase income, and the incentive to shop locally, to keep the money in circulation.

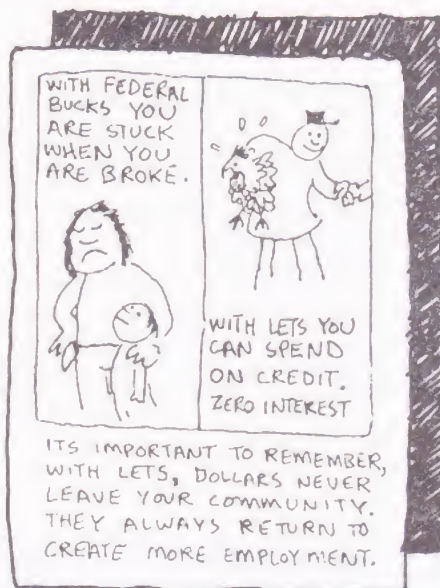
From the nation, to the province, to the city and the village, we have an appalling history of selling our soul to the export market.

CIRCUMSTANCES BEYOND OUR CONTROL

There are two characteristics of conventional money that render it ineffective as a proper support for the convivial community. Conventional money, being universally distributable, has no inherent tendency to remain in circulation in any particular community. Conventional money, which is the essential lifeblood of the economy, derives from agencies external to the community. The combination of these factors causes excessive dependency upon circumstances external to the community and essentially beyond its control. Communities dominated in this way tend to become of merely geographic significance, having little or no infrastructure that might reflect self-direction.

Few means appear to exist by which such communities can be induced or coerced into rational management of the flow of conventional money. No boundary conditions exist or can legitimately be created that retain conventional cash without detrimental consequences, such as trade restriction. However, it is entirely possible to create a specifically local currency that ensures a money supply to the community it serves, simply because the money is unuseable, and thus unwanted, beyond that community. ►





LOCAL CURRENCY SYSTEMS: BENEFITS

When a community has its own currency, full employment can be available to anyone who wants to work and has a skill or service, of any nature, that is required by that community. It need no longer be the case that there are jobs that need doing and that people who wish to work are kept idle for want of money. This is a natural consequence of the necessary recirculation of the local money; in contrast, conventional money will generally drain out of the community to the cheapest available source of labor or goods. A community with its own currency has the capacity to adopt and maintain coherent and relevant directions of development with minimal dislocation by external events.

It generally seems to have escaped notice that money today is essentially a mere promise that value will be given. We are willing to trade in such promises when they derive from governments, one of the least reliable of institutions, but it seems that people are unwilling to go very far in trusting each other as individuals. At the root of the matter lie two fundamental causes — (1) the isolation of the individual from any integral local community and (2) the failure to take personal responsibility and to assume risk.

It makes greater sense to base a money system on the promises of the individuals who make up the community itself and are the actual producers of value. The promise suggested is not the promise to repay cash to the community for goods received (we know that such promises are too dependent upon external circumstances beyond anyone's control to be reliable), but a promise to make some time or goods available

at some future date, which is only jeopardized if the promiser is persistently unwilling or dead.

If you could give your word and thereby create a money that would circulate in your community providing for the support of many others, all the while remaining available for you to earn back, providing, in that act, service for others as you yourself were first served, why would you not do it?

LETSYSTEMS

A Local Employment Trading System (LETSystem) is a self-regulating economic network that allows its members to issue and manage their own money supply within a bounded system. Essentially, a LETSystem resembles a bank, and being a member of a LETSystem is as simple as having another bank account. Members' accounts hold "green" dollars, a currency equivalent in value to the federal dollar, but no money is ever deposited or withdrawn. All accounts start at zero and members can use "green" dollars only with other members. The system is thus always exactly balanced with some of the members in credit and others in debit. This creates a local recirculatory currency, whose effectiveness is determined by these arrangements:

There is never any obligation to trade.

Any member may know the balance and turnover of another member.

No interest is charged or paid on balances.

Administrative costs are recovered, in the internal currency, from member accounts on a cost-of-service basis.



LETSystems are self-stabilizing, set-up costs are minimal and the operation can be self-supporting from the outset even at a fraction of its full capacity. Administration is simple and requires no special training.

Henry Ford said it was good engineering to "Simplicate and add lightness." LETSsystems as described above represent the simplest and lightest method yet devised to account for the give and take that is trading in the world.

A LETSsystem is a facility that allows its members to generate and manage their own currency system independent of and parallel to the federal monetary system. It offers communities everywhere the tools to stabilize and support their local economy without diminishing their participation in the whole. It allows members of the local community to exchange goods and services on a "green dollar" basis when federal dollars are scarce or unavailable.

This appears to be the first effective application of network concepts, as distinct from hierarchical structures, to economic theory and practice. What is new about a LETSsystem is that it is not a bank, or a credit card barter system, but in fact, an independent local economy.

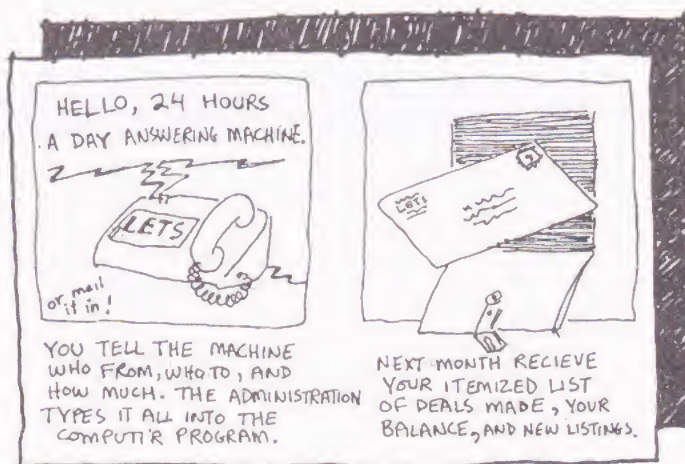
Money is an information system we use to deploy human effort.



A LETSsystem supplements the conventional monetary system to bring underemployed resources, people, equipment, land, and energy into effect as they are needed by the community. Conventional currencies have many inevitable structural problems, such as instability, management of volume, reserve backing, and administrative costs. The management of the money supply is the major problem of current economies.

The expedient of allowing the individual to issue money ensures that the money supply reflects the needs of the community. This is impractical in a paper monetary system, but can be easily administered by a computer network. Most communities, and many nations, are excessively dependent upon imports and exports

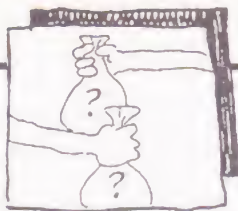
and have little internal structure and economy. When exports lag behind imports, a currency shortage develops and people lose their livelihood. This is often unnecessary, since it is, generally, only the money that is missing. People, tools, energy, and materials are often all at hand and a local currency can almost invariably return any community to full employment.



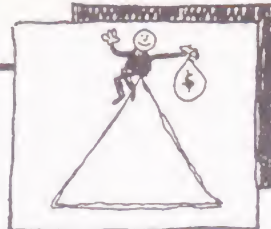
Conventional currencies and exchange systems are broad-scale and impersonal, i.e., the conventional currency is accepted by everyone, or nearly everyone, within a wide geographic area. Seller and buyer need know nothing at all about each other. Possession of the currency speaks sufficiently of itself for an exchange to take place (since possession of the currency implies that the possessor has already delivered valuable goods and services to the community). LETS, on the other hand, is limited-scale and personal. Exchange agreements are, or should be, based upon personal history (account activity ratio) and reputation of the buyer, since a debit balance represents a commitment to the community.

ESSENTIAL CHARACTERISTICS

1. A LETSsystem is operated as a nonprofit agency whose rights and authority are vested in a TRUSTEE who acts as an agent for the members who are principals. LETS provides a service that allows members to exchange information to support trading and maintains such accounts of that trading as members request.
2. The agency maintains a system of accounts in a quasi-currency, the unit of value being related to the prevalent legal tender.
3. Member accounts start at zero; no money is deposited or issued.
4. The agency acts only on the authority of a



it is not a barter system, because not just 2 people are involved, but many; so it is more flexible.



not a pyramid scheme because it is locally controlled and no real dollars are spent (except costs)



not tax evasion scheme; because you must pay income tax on items traded.

member in making a credit transfer from that member's account to that of another.

5. There is never any obligation to trade, but members must be willing to *consider* trading in "green" dollars.

6. A member may know the balance and turn-over of another member.

7. No interest is charged or paid on balances.

8. Administrative costs are recovered from member accounts on a cost-of-service basis.

9. Accountability for taxes incurred by members is the obligation of those involved in an exchange, and LETS assumes no obligation or liability to report to taxation authorities or to collect taxes on their behalf.

PROCEDURES

The bookkeeping function of the LETS system closely resembles that of a credit union whose members can use the currency only in trade with other members. Hence credit transfers between accounts and the issuing of periodic statements are the only necessary accounting procedures. This can be done by hand or computer, as appropriate.

The currency unit used in the system should be recognized as equivalent in value to the regional legal tender so that valuation between members is customary and the LETS system can associate accurately with the existing economy. It has to be clear to all participants that the internal currency of the system has no intrinsic value. It is never issued and cannot necessarily be cashed. The distribution and development of LETS systems therefore will generally reflect natural geographic regions and economic communities.

Accounts can be positive: when a member has earned more than spent to date; such accounts are "in credit." Equally, some accounts must be negative: the member has received more than he

has contributed; in which case the account is considered to be "committed." Clearly, only those accounts in credit risk loss if the currency should devalue. The economy is thus always balanced, the total value of green dollars held in credit being matched by the commitment of the members in debit. The individual member effectively issues money into the community by spending, and redeems it by earning or selling. All transfer from a member's account is on that member's authority and may not be enforced otherwise. Neither can a commitment be invoked. The commitment is to the community as a whole, not to any one person, so no member can ever demand performance from another. However, a member who is reluctant to earn or receive green dollars will find it progressively more difficult to spend them, since this information is freely available to any member from whom he might want to buy.

A negative bank account is a private matter, but a negative LETS account is an issuing of promises in a community, and is thus, de facto, a public act. The LETS system offers a facility, and proposes an ethic, that services can be exchanged on a "cost-to-provide" basis including reasonable profit. It is appropriate that its own service is offered in this way. The constitution of LETS systems as nonprofit agencies, paying administrative staff at current market rates, will obviate tendencies to profiteering.

EXAMPLES

Joe cuts firewood. Peter is a welder, and he wants wood but has no money. Joe doesn't want any welding. In a barter system, that's usually where it stops. However, if Joe and Peter are members of the LETS system, then Joe delivers the wood, and Peter picks up the phone. He dials the LETS system office and says, "Hi, this is Peter, No. 48, please acknowledge Joe, No. 83, \$75 for firewood." Joe's account balance in-



not a get rich quick scheme but with a line of credit and local employment we all get wealthy.



not a charity or social segregation: capitalist and socialist, rich and poor, all can participate.



not a replacement for the federal economic system, but works with, and beside it. Encouraging small business enterprise, Adam Smith would love it!

creases and Peter's decreases by \$75. In turn Joe employs the carpenter, the carpenter gets a haircut, gets some clothes made, buys food from the farmer. The farmer now has a way to pay for a welder, so Peter gets to work again.

And so it goes. The unit of exchange, the green dollar, remains where it is generated, providing a continually available source of liquidity. *The ultimate resource of the community, the productive time of its members, need never be limited by lack of money.*

Margaret needs the brakes fixed on her car. She is billed for parts and taxes in federal dollars, which represent the essential outgoing costs involved, and pays the balance in green dollars.

The same procedure takes place when businesses trade within the LETS system. For the retail merchant, a LETS exchange works like this: A customer buys a \$30 pair of shoes; price to a LETS member could be \$20 cash, \$10 in green dollars, credited to the merchant's account. This credit can then be used by the retailer in dealings with other LETS members, businesses, or individuals. Each retailer has total control over the store's pricing system to include collection of taxes, overhead, and markup.

Any business can use green dollars to improve its trading position without causing cash flow problems or any disruption of its normal business. Suppose a business is barely meeting overhead, has no cash to spare and sees no way to use green dollars for business expenses or stock replacement. Any trade using green dollars should then be arranged so that all marginal cash costs of that trade are met in cash, and further, that cash is also paid to meet tax commitments, both sales tax and income tax liabilities deriving from profits. This strategy avoids all risk and covers all cash costs.

In many cities in North America there are commercial agencies, called barter exchanges, offering services to businesses similar to those offered by a LETS system. These are, however, all organ-

ized on different principles, and charge users initiation fees of at least \$300 with a commission of about 8 percent, in cash, on all transactions. Despite such high costs and many limiting regulations, businesses find it profitable to use these services. LETS systems offer the same services at less than a tenth of the charges of the average commercial system, and access a far greater customer base.

As more goods and services become available for green dollars, businesses will be better able to absorb costs in green, thus expanding their capacity to sell in green. This will eventually raise the applicability of green dollars to that of a full local currency. The effect of a local currency will be to protect local producers from being undercut by imported goods, and thus provide a more stable environment for developing the local infrastructure. This will be of particular benefit to local food producers with ecologically sound farming practices that make price competition with agri-business difficult. Charity groups and service clubs which have found fundraising difficult during a recession will also be able to raise donations more easily in green dollars. Donors will be comfortable in contributing funds which are more likely to return to them as income, particularly since their other expenditures are not thereby limited.

An organism is defined by its skin, a boundary layer that selectively allows the free transfer of some materials while retaining others. The more complex the organism, the more its activity is related to internal processes than to transfers across the skin. The only skin possessed by a community in present circumstances is geographic and is related to transportation costs. Since the last half-century has seen transport costs steadily decline, most of our communities have been reduced, by excessive dependence on imports and exports, to extremely primitive economic processes. LETS systems are a way to give local communities new skins. ■